UMJINDI LOCAL MUNICIPALITY

MULTI YEAR FINANCIAL PLAN

Core Business Area	Financial Services Directorate
Operational Area	Budget & Treasury Section

Owner: Chief Financial Officer
Client: Umjindi Local Municipality

Document Classification:
Confidential

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1. PURPOSE

1.1 The purpose of this document is to outline the comprehensive Multi-year Financial Plan that will ensure long-term Financial sustainability for the Municipality.

1.2 A Multi-year Financial Plan is essential to ensure that the Municipality continues to implement its mandate effectively without impairing its capital base. It will also enable the Municipality to move towards self-sufficiency in meeting the growing demands of Service Delivery.

2. BACKGROUND:

2.1 A Financial Plan is prepared for a period of at least three years, however it is preferred that it should be for over a period of five or more years.

2.2 A Multi-Year Financial Plan is prepared to ensure financial sustainability of the Municipality paying particular attention to the Municipality's infrastructure requirements.

2.3 It is also an important component of the Municipality's Integrated Development Plan.

2.4 A prudent Multi-Year Financial Plan identifies and prioritizes expected needs based on the Municipality's Five-Year Integrated Development Plan and details estimated amounts of funding various sources.

2.5 The Multi-Year Financial Plan will also ensure that the Municipality has greater financial health and sustainability, making it easier to collaborate on projects with other levels of Government and various public and private stakeholders. This will further enhance the ability of the Municipality to have access to more financing, funding and grants.

3. FINANCIAL STRATEGY FRAMEWORK:

3.1 Umjindi Municipality is a developing and growing Municipality striving for service delivery excellence. Therefore many challenges are faced with regards to Financial Planning and are ever changing due to the dynamic setting of Local Government.

3.2 The priority for the Municipality, from the financial perspective is to ensure viability and sustainability of the Municipality. The Multi-Year Financial Plan and related strategies will therefore need to address a number of key areas in order to achieve this priority. These strategies are detailed below:

3.2.1 Revenue Enhancement Strategy:

* To seek alternative sources of funding;
* Expand Income base through implementation of new Valuation Roll;
* The ability of the Community to pay for services;
* Identification and pursuance of Government Grants;
* Tightening Credit Control measures and Debt Collection Targets;

* Improve customer relations and promote a culture of payment;
* Realistic Revenue estimates;
* The impact of inflation, the Municipal cost index and other cost increases; and
* The creation of an environment which enhances growth, development and Service Delivery.

3.2.2 Asset Management Strategy:

* The implementation of a GRAP compliant Asset Management System;
* Adequate Budget provision for Asset Maintenance over their economic lifespan (Remains currently a challenge);
* Maintenance of asset according to an Infrastructural Asset Management Plan (In developmental stage);
* Maintain a system of Internal control of assets to safeguard assets; and
* Ensure all assets owned and/or controlled except specific exclusions are covered by Insurance.

3.2.3 Financial Management Strategies:

* To maintain an effective system of Expenditure control including procedures for the approval, authorization, withdrawal and payment of funds.
* Preparation of the Risk Register and application of Risk Control;
* Implement controls, procedures, policies and by-laws to regulate fair, just and transparent transaction;
* Training and development of Senior Financial staff to comply with prescribed minimum competency level
* Implement new GRAP standards as gazette by National Treasury; and
* Prepare Annual Financial Statements timorously and review performance and achievements for past financial years.

3.2.4 Operational Financing Strategies:

* Effective Cash Flow Management to ensure continuous, sufficient and sustainable cash position;
* Enhance budgetary controls and financial reporting;
* Direct available Financial resources towards meeting the projects as identified in the IDP, and
* To improve Supply Chain Management processes in line with regulations.

3.2.5 Capital Funding Strategies:

* Ensure service delivery needs are in line with Multi-year Financial Plan;
* Careful consideration / prioritization on utilizing resources in line with the IDP;
* Analyze feasibility and impact on operating budget before capital projects are approved;
* Determine affordable limits for borrowing;
* Source external funding in accordance with affordability.
* Improve capital budget spending; and

* Maximizing of infrastructural development through the utilization of all available resource.

3.2.6 Cost-Effective Strategy:

* Invest surplus cash not immediately required at the best available rates;
* Restrict capital and operating expenditure increases in relation to the inflation rate taking into consideration the macro economic growth limit guideline and Municipal cost increases.
* To remain as far as possible within the following selected key budget assumptions-
  *Provision of bad debts of at least 5%
  *Overall cost escalation to be linked to the average inflation rates
  *Tariff increase to be in line with inflation plus Municipal growth except when regulated;
  *Maintenance of assets of at least 6% of total operating expenditure
  *Capital cost to be in line with the acceptable norm of 18%
  *Outstanding external debt not to be more than 50% of total operating revenue less Government Grants; and
  *Utilisation of Equitable Share for indigent support through Free Basic Services.

3.2.7 Measurable Performance Objectives for Revenue:

* To maintain the Debtors to revenue ratio below 10%
* To maintain a Debtors payment rate of above 90%
* To ensure that the Debtors return remain under 40 days; and
* To keep the Capital cost on the Operating Budget less than 18%

3.3 Financial Management Policies:

The purpose of Financial Policies is to provide a sound environment to manage the financial affairs of the Municipality. The following are key budget related policies:

3.3.1 Tariff Policy: the Policy prescribes the procedures for calculating tariffs. This policy is required in terms of Section 74 of the Local Government Municipal System Act, Act 32 of 2000;

3.3.2 Rates Policy: a Policy required by the Municipal Property Rates Act, Act 6 of 2004. This Policy provides the framework for the determination of rates;

3.3.3 Indigent Management support Policy: to provide access to and regulate free basic services to all indigents;
Indigents are those households who are unable to access or pay for basic services due to a number of socio-economic factors.

Indigents must gain access to the Municipal Services infrastructure including water supply, sanitation, refuse removal, electricity and alternative energy where no electricity is available.

The Municipality needs to ensure that the services provided to indigent households are always maintained and available.

The indigent subsidy must be targeted to the poor.

3.3.4 Budget Policy: this Policy set out the principles which must be followed in preparing Medium Term Revenue and Expenditure Framework Budget. It further ensures that the Budget reflects the strategic outcomes embodied in the IDP and related strategic policies.

3.3.5 Asset Management Policy: the objective of the Policy is to prescribe the accounting and administrative procedures relating to the property, plant and equipment;

3.3.6 Accounting Policy: The policy describes the basis of presentation of the Annual Financial Statements in accordance with the Generally Recognized Accounting Practices and Accounting Standards.

3.3.7 Supply Chain Management Policy: this Policy is developed in terms of Section 1 of the Municipal Finance Management Act, Act 56 of 2003. The principles of this Policy is to give effect to a fair, equitable, transparent, competitive and cost effective system for the procuring of goods and services, disposing of goods and selecting of contractors in the provision of Municipal Services.

3.3.8 Subsistence and Travel Policy: this Policy regulates the reimbursement of travelling and subsistence costs to officials and Councilors attending official business.

3.3.9 Credit Control and Debt Collection Policy: this Policy provides for Credit and Debt Collection Procedures and mechanisms to ensure that all consumers pay for the services that are supplied.

3.3.10 Cash Management and Investment Policy: this Policy was compiled in accordance with the Municipal Invest Regulation R308 and ensures that cash resources are managed in the most efficient and effective manner possible.

3.3.11 Short-term Insurance Policy: the objective of the Policy is to ensure the safe-guarding of Council's assets.

3.3.12 General Ledger Chart of Accounts Maintenance Policy (COA)
A current and accurate Chart of Accounts is an integral part of the accounting systems of the municipality.
This Chart of Accounts is generally consistent with the definitions and procedures presented in the GRAP (General Recognize Accounting Practices) Requirement as well as the General Financial Statistics (GFS Classification) and various budget reform processes as aligned by National Treasury.

3.3.13 Information Technology Policy

Aim of this policy is:

To promote the professional, ethical, lawful and productive use of Umjindi Municipality information systems.

To define and prohibit unacceptable use of Umjindi Municipality information systems.

To educate Municipal officials about their Information Security responsibilities.

To describe where, when and why monitoring may take place.

To outline disciplinary procedures.

3.3.14 Debt Management Policy

The objectives of this policy are to:

Record the circumstance under which a municipality may incur debt.

Describe the conditions that must be adhered to by the Municipal Manager or his/her delegate when a loan application is submitted to council for approval;

And record the key performance indicators to ensure access to the money markets.

3.3.15 Petty Cash Policy
Policy Objectives

To ensure the correct procedures are followed when requesting a petty cash facility
To ensure that petty cash is kept safe at all times
To ensure that advances are only paid for valid expenses purchases and that all transactions are accurate and complete
To ensure that petty cash is balanced and reconciled on a daily basis in order to detect mistakes, and to prevent the float being depleted before replenishment takes place
To ensure that replenishment of petty cash is done when required and that replenishment only takes place for amounts that are supported by valid supporting documents.
To ensure that the petty cash facility is available and managed well in the absence of the regular petty cash official.

4. REVENUE FRAMEWORK:

4.1 In order to serve the Community and to render the services needed, revenue generation is fundamental to financial sustainability of every Municipality.

4.2 The reality is that we are faced with developmental backlogs and poverty, challenging our Revenue generation capacity. The requests always exceed the available funds. This becomes more obvious when compiling the Municipality's Annual Budget.

4.3 Municipalities must table a balanced and more credible Budget, based on realistic estimation of revenue that is consistent with their budgetary resources and collection experience

4.4 The Revenue strategy is a function of key components such as:

4.4.1 Growth in town and economic development
4.4.2 Revenue enhancement
4.4.3 Achievement of above 90% annualized collection rate for consumer revenue;
4.4.4 National Treasury guidelines;
4.4.5 Electricity tariff increase within National Electrification Regulator of South Africa (NERSA) approval;
4.4.6 Approval of full cost recovery of specific department
4.4.7 Determining tariff escalation rate by establishing / calculating revenue requirement; and
4.4.8 Ensuring ability to extent new services and recovering of costs thereof.

4.5 The South African economy is slowly recovering from the economic downturn and will still take some time for Municipal revenues to increase through Local economic growth.

4.6 Consequently cash flows are expected to remain under pressure for the 2011/2012 Financial Year and a conservative approach is followed to project expected revenues and cash receipts.

4.7 The following table is a high level summary of the projected operating revenue for the Municipality over the Medium Term:

REVENUE BY SOURCE	MEDIUM TERM FINANCIAL PLAN			
	FULL YEAR FORECAST 2012/2013 R000	BUDGET YEAR 2013/2014 R000	FORECAST 2014/2015 R000	FORECAST 2015/2016 R000
	171 541 528	206 931 855	233 158 946	250 626 766

5. GRANT FUNDING:

5.1 The Division of Revenue Act contains allocations from National and Provincial, which allocations are recognized as Government Grants and factored as follows under the Medium Term:

GOVERNMENT GRANTS	MEDIUM TERM FINANCIAL PLAN			
	FULL YEAR FORECAST 2012/2013 R000	BUDGET YEAR 2013/2014 R000	FORECAST 2014/2015 R000	FORECAST 2015/2016 R000
OPERATING GRANTS				
Finance Management Grant	1 500	1 550	1 600	1 650
Municipal Systems Improvement Grant	800	890	934	967
Equitable Share	41 317	52 307	57 371	65 417
CAPITAL GRANTS				
Municipal Infrastructure Grant	27 181	28 052	29 843	31 749
Integrated National Electrification Grant	10 400	18 000	10 000	11 000
EPWP Incentive Grant	1 493	1 286		
Water Infrastructure Grant		17 701	23 000	113 726
TOTAL	82 691	102 085	122 748	224 509

5.2 Government grants forecasted for the 2013/2014 Financial Year reflect an increase of 24% from the 2012/2013 Financial Year.

5.3 The Equitable Share allocation to the local sphere of Government is an important supplement to existing Municipal Revenue and takes account of the fiscal capacity, fiscal efficiency, developmental needs, extent of poverty and backlogs in Municipalities.

5.4 It is an unconditional grant and allocations are contained in the Division of Revenue Act (DORA).

5.5 The structure and components of the formula are summarized as follows:

Structure of the local government equitable share formula

LGES = BS + (I + CS)xRA ± C

where

LGES is the local government equitable share

BS is the basic services component

I is the institutional component

CS is the community services component

RA is the revenue adjustment factor

C is the correction and stabilisation factor

5.6 It should be noted that the basic component support is only for poor households earning less than R1500.00 per month and it also distinguishes between poor households provided with services and those provided with lesser or no services.

5.7 A Municipality should prioritize its budget towards poor households and national priorities such as free basic services and the expanded public works programme.

6. TARIFF SETTING:

6.1 Umjindi Municipality derives its revenue from the provision of services such as electricity, water, sanitation and refuse removal. A considerable portion of the Revenue is also derived from property rates and grants by National Governments as well as other minor charges such as traffic fines.

6.2 As in the past, increase cost primarily driven by the Consumer Price Index (CPIX), dictates an increase in the tariffs charged to the consumers and the ratepayers. It therefore follows that all the tariffs will have to be increased by a percentage in line with the forecasted CPIX estimated at anaverage CPI for this period is 5.6 per cent.
Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget year of 6.85 per cent (5.6 per cent plus 1.25 per cent). The agreement also provides for a 1 per cent increase for the 2014/15 financial year. In this regard, municipalities may provide for a 6.4 per cent (5.4 per cent plus 1 per cent) increase for the 2014/15 budget year.

6.3 It is realized that the ability of the community to pay for services rendered is also under tremendous pressure and that the economic outlook for the near future require everybody to make sacrifices.

6.4 The additional revenue that will be generated through tariff increased has to ensure continued service delivery.

6.5 The latest figures released by STATS SA indicated contractions in several spheres of the economy and this confirms that the disposable income of households remain under a lot of strain.

6.6 By drastically increasing tariffs on essential commodities, more strain will be added for the already cash stripped resident households.

6.7 Increase beyond the CPIX included in the Medium Term will only add to bad debt which is already high and a decline in the cash flow

6.8 It must be kept in mind that household cash flow will definitely be strained by tariff increase of ESKOM.

6.9 The outcome of the proposed increase in tariffs for the 2013/2014 on the different categories is as follows:

DETAILS	2013/14 PROPOSED TARIFF INCREASE	2013/14 TOTAL BUDGETED REVENUE
Property Rates	New Valuation roll	25 069 187
Electricity	7%	72 494 811
Water	6%	33 931 182
Sanitation	6%	5 871 096
Refuse Removal	Total new tariff structure	10 524 767
Cemetery	10%	190 000
TOTAL		148,081,043

6.10 From the household perspective, how much more will be paid in rand is of more interest than the % increase in the various tariffs and rates.

6.11 The implementation of the Credit Control and Debt Collection Policy, particularly with regards to the appointment of the Debt Collection Agency will aid in ensuring that the Municipality reverts back to its collection rate of 91% over the past financial year. It is however envisaged that with the pressure on tariff increases to fund the Medium Term Budget, the payment rate will become under pressure and special attention will have to be paid on managing all revenue and cash streams especially debtors.

6.12 The Equitable Share allocation is mainly used to provide free basic services to approximately 2000 Indigents. The proposed Indigent support provided for as per draft tariffs (Which still have to be approved by council) is as follows:

INDIGENTS AND FREE BASIC SERVICES		
	PER HOUSEHOLD PER MONTH	RAND AMOUNT PER MONTH
Free Basic Electricity per month	205.20	410 400
Free Basic Water per month	76.73	153 460
Free Refuse and Sewerage per month	91.20	182 400
Free assessment rates per month	28.23	56 460
Total free basic services per month		802 720

7. EXPENDITURE FRAMEWORK:

7.1 Some of the salient features and best practice methodologies relating to expenditure include the following:

7.1.1 Asset renewal strategy (infrastructure repairs and maintenance a priority)

7.1.2 Balanced budget constraint (Expenditure cannot exceed Revenue)

7.1.3 Capital programme aligned to Asset renewal Strategy

7.1.4 Operational gains and efficiencies resulting in additional funding capacity on the Capital Programme as well as redirection of funding to other critical areas, and

7.1.5 Strict principle of no project plan (business plan) no budget allocation (funding allocation)

7.2 The following table is a high level summary of the total projected expenditure for the Municipality over the Medium Term period and aligned to the IDP.

EXPENDITURE BY TYPE	MEDIUM TERM FINANCIAL PLAN			
	FULL YEAR FORECAST 2012/2013 R000	BUDGET YEAR 2013/2014 R000	FORECAST 2014/2015 R000	FORECAST 2015/2016 R000
Employee Related Costs	63 964	74 343	72 518	76 869
Remuneration of Councillors	6 022	5 651	5 990	6 350
Electricity Bulk purchases	60 650	64 535	76 797	91 388
Repairs and Maintenance	7 261	8 357	8 934	14 829
Redemption of External loans	1 274	1 259	1 335	1 404
Depreciation	30 000	25 000	23 000	20 000
General Expenditure	48 615	70 986	69 747	72 142
TOTAL OPERATING EXPENDDITURE	217 786	250 131	258 321	282 982
Capital Expenditure (Grants)&(Other)	43 637	71 154	61 654	155 214
TOTAL EXPENDITURE	261 423	321 286	319 975	438 196

7.3 The Medium Term projections reflect an average growth of 20% for the 2013/14 MTREF not taking the decrease in the asset depreciation and capital expenditure in consideration.

7.4 In terms of the projected operating budget of R 250 131 893 for the 2013/2014 Financial Year, indicative Salary increases have been included and represents 30% of the total Operating Expenditure forecast.

7.5 The cost associated with the remuneration of Councillors is determined and informed directly by way of the Remuneration of Public Office Bearers Act 1998 (Act No 20 of 1998)

7.6 Bulk Electricity purchases remain the increasing factor on Operating Expenditure with increases of R 64 535 (2013/2014) to R 76 797 (2014/2015) and R 91 388 (2015/2016) respectively over the Medium Term.

8. CAPITAL REQUIREMENTS:

8.1 The following table indicates the projected Medium Term Capital requirements per Department.

8.2 These figures are based on the projects identified through the IDP project phase and reflect estimated amounts based on the availability of funding:

CAPITAL EXPENDITURE BY VOTE	MEDIUM TERM FINANCIAL PLAN			
	FULL YEAR FORECAST 2012/2013	BUDGET YEAR 2013/2014	FORECAST 2014/2015	FORECAST 2015/2016
Executive and Council	8 000	0		
Budget and Treasury Office	30 000	15 000		
Corporate Services	70 000	486 000		
Planning & Development	15 000	33 000		
Public Safety	51 000	156 000		
Health	0	72 500		
Community &Social Services	0	102 500		
Sport and Recreation	1 772 250	2 291 080	1 189 405	1 260 769
Housing	0	16 000		
Waste management	369 700	11 000		
Waste Water management	2 147 100	9 014 800	9 540 000	10 112 400
Road Transport	10 170 000	12 290 500	9 540 000	10 112 400
Water	15 128 950	25 178 340	31 384 190	122 728 662
Electricity	13 875 000	21 487 500	10 000 000	11 000 000
TOTAL CAPITAL EXPENDITURE BY VOTE	43 637 000	71 154 220	61 653 595	155 214 231

8.3 It is imperative that Capital Budgets are prioritized to reflect consistent efforts to address backlogs in basic services and the refurbishment and expanding of existing infrastructure.

8.4 Cognizance should also be given that National Government has prioritized the quality of drinking water and failures in the management of waste water through the blue drop and green drop performance ratings.

8.5 Measures have to therefore be taken over the Medium Term Revenue and Expenditure Framework to implement these strategies to ensure that existing waters supply and waste water comply with these requirements.

8.6 It is important to realize that these figures are only indicative of the different services and may vary as priorities change.

8.7 From the above it is clear that for the next three years many challenges lie ahead to appropriate Capital Expenditure towards available sources of funding and to obtain alternative funding sources to address the needs as identified in the IDP.

8.8 In terms of infrastructure development and to reach the Government Service Delivery targets, 94 % of the Capital Programme will be allocated for this purpose.

8.9 It can further be noted that 30% of the Capital Expenditure is allocated to the Electricity services, 35% for water, 13% for Roads and Stormwater and approximately 13% for Sewerage services whilst the balance of 9% is for community and institutional requirements.

8.10 The project source of funding over the Medium Term has been carefully considered and can be summarized as follows:

CAPITAL FUNDING BY SOURCE	MEDIUM TERM FINANCIAL PLAN			
	FULL YEAR FORECAST 2012/2013	BUDGET YEAR 2013/2014	FORECAST 2014/2015	FORECAST 2015/2016
Other transfers and Grants				
Internally generated funds	2 250 300	6 528 300		
National Government	3 400 000	15 910 000	23 000 000	113 726 000
Municipal Infrastructure Grant	26 091 200	26 929 920	28 653 595	30 488 231
Integrated National Electrification Grant	10 400 000	20 500 000	10 000 000	11 000 000
EPWP Incentive Grant	1 495 500	1 286 000	0	0
TOTAL	43 637 000	71 154 220	61 653 595	155 214 231

9. CONCLUSION

9.1 The continued improvement and development of an effective financial planning process aids the actualization of fulfilling its facilitating role to capacitate the community to build a prosperous future for all

9.2 The Financial planning imperatives contribute to ensuring that the Municipality remains financially viable and that municipal services are provided economically to all communities

9.3 The Multi-year Financial Plan contains realistic and credible revenue and expenditure forecasts which should provide a sound basis for improved financial management and institutional development as well as service delivery improvements and implementation.

9.4 The strategy towards cash backing will certainly ensure the sustainability of the Municipality over the medium-to long-term